No. 80-2182

Supreme Court, U.S.
FILED
NOV 30 1981
ALEXANDER L. STEVAS,
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

DARBY DRUG CO., INC., INWOOD LABORATORIES, INCORPORATED, MD PHARMACEUTICAL COMPANY, INC., PREMO PHARMACEUTICAL LABORATORIES, INC., RUGBY LABORATORIES, INC., and SHERRY PHARMACEUTICAL CO., INC.,

Petitioners,

—against—

IVES LABORATORIES, INC.,

Respondent.

ON A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF *AMICI CURIAE* OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS AND THE NATIONAL RETIRED TEACHERS ASSOCIATION IN SUPPORT OF THE PETITIONERS

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QUESTIONS PRESENTED

1. Whether the truthful, comparative use of another's trademark in labeling and advertising gives rise to liability for trademark infringement?

2. Whether Section 32 of the Lanham Act (15 U.S.C. § 1114) grants a trademark owner monopoly rights in the color of its product?

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STATEMENT OF INTEREST OF *AMICI CURIAE*

The American Association of Retired Persons (AARP) and the National Retired Teachers Association (NRTA) are affiliated and jointly administered not-for-profit membership corporations of more than 12,500,000 persons over the age of 55.

This figure represents approximately one out of four people over the age of 55 nationwide, the largest organized group of older Americans in the country. Among the purposes of AARP are: to enhance the quality of life for older persons; to promote independence, dignity and purpose for older persons; to lead in determining the role and place of older persons in society; and to improve the image of aging. Among the purposes of NRTA are: to promote the social welfare and needs of retired teachers, administrators and all other persons eligible for membership, to improve the quality of life for retired teachers, school administrators, and all older Americans, to the end that aging is achieved with independence, dignity and purpose; and to sponsor research on physical, psychological, social, economic and other aspects of aging.

As retired persons, many members of AARP and NRTA live on relatively fixed incomes and, because of their advanced age, many also depend on regular or frequent administration of pharmaceuticals for their continued well being. Because of the need to contain the already high and rapidly increasing cost of health care, including expenses for drugs, this case is especially critical to the health and welfare of AARP and NRTA members and of all older Americans.[1]

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1. The elderly spend a far greater amount per capita on health care each year than younger persons. In 1979, the average annual health care expenditure for persons over 65 was $2,257 or 3½ times the average amount expended by persons under 65. While older Americans comprise only 11.2% of the population, they spend 29% of the total nationwide expenditure for personal health care. With respect to drug costs, all Americans expended $15,098,000,000 for drugs and drug sundries in the calendar year 1978. Of this figure, $3,331,000,000 or 22% of the nationwide total was spent by persons 65 years of age and older. On a per capita basis, older persons' drug costs are nearly twice as much as those of younger persons.

   Older Americans pay for the overwhelming majority of these costs out of their own pockets. Medicare provides no reimbursement for prescription drugs. Medicaid is available only for the poor, and indeed only provides benefits for approximately 50% of the poor. Consequently, only 15.6% of drug costs to the elderly are covered by the combination of Medicare and Medicaid and other types of public

The overriding interest of AARP and NRTA in the health care field is to foster and promote efficient delivery to the elderly of the best possible services at the least possible cost, thus making them readily available even to persons living within fixed and limited incomes. Amici steadfastly maintain that elimination of all anti-competitive barriers in the drug industry is essential to the achievement of this ultimate goal.

Brand name manufacturers develop an overwhelming head-start in the market for a particular drug, Cyclospasmol being a prime example. By virtue of their patent, they enjoy a seventeen year product monopoly, and direct an exhaustive advertising campaign toward physicians. As a consequence, most physicians identify a drug with its brand name and write prescriptions accordingly.

In recognition of the vast competitive superiority thus obtained by brand-name manufacturers, the legislatures of 49 states have adopted so-called "generic drug substitution" statutes which either require or allow the dispensing pharmacist to substitute a generic drug, unless the physician otherwise directs. These statutes are evidence of the pervasive local interest in fostering effective competition in the pharmaceutical market in order to achieve some measure of cost containment.

Instead of accommodating this social interest, the Second Circuit has ignored it, and indeed done it considerable violence, by effectively granting brand-name producers a monopoly over the color in which their drug is produced.

The color in which drugs are packaged involves far more than aesthetics; it is a vital competitive characteristic. During the period in which their patent is in effect, brand-name

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assistance. Thus the elderly must privately finance a full 84.4% of these drug costs, largely out of their fixed, and increasingly inadequate incomes. Gibson, *National Health Expenditures*, 1979, 2 HEALTH CARE FINANCING REVIEW 1 (Summer 1980); Fisher, *Differences by Age Groups in Health Care Spending*, 1 HEALTH CARE FINANCING REVIEW 4 (Spring 1980).

companies establish a color which identifies a particular drug in the eyes of dispensers, *i.e.* physicians, hospitals, and pharmacists, as well as in those of the patient. The introduction, after expiration of the patent monopoly period, of a generic equivalent dressed in a different color will be met with substantial resistance, by reason of which the generic competitor will be foreclosed from a substantial pocket of the market.

Thus, it is predictable that the Second Circuit's decision, severely restricting the ability of generic manufacturers to dress their drugs in the "accepted" colors used by the brand-name producers, will stifle competition and prices will inevitably rise. This threat to the continued availability of lower-priced, bioequivalent generic drugs, and the downward pressure on prices caused by their competition with brand-name drugs, seriously prejudices older persons, a category of Americans with expanded need for the drugs, but with often limited means to pay for them.

ARGUMENT

Amici respectfully join in the legal arguments advanced by the Petitioners. We respectfully highlight below several points of direct concern to AARP and NRTA.

POINT I

THE SECOND CIRCUIT'S DECISION GRANTS BRAND-NAME DRUG MANUFACTURERS AN UNFAIR MARKETING ADVANTAGE BY VIRTUE OF THE FUNCTIONALITY OF DRUG COLOR AND THUS THREATENS TO DEPRIVE ELDERLY CONSUMERS OF THE BENEFITS PRODUCED BY CONTINUED COMPETITION BY GENERIC DRUG MANUFACTURERS

The colors used in drug packaging are functional in various ways, particularly as regards the elderly. The colors serve to identify the *medicine,* but not its source. As expressly found by the District Court,[1] many patients, especially elderly patients, associate the color of a drug with its therapeutic effect. Since the brand-name product, in the color of the capsule containing it, is the exclusive source of a drug while it is under patent, a drug will be identified as "my little blue heart pill." When a bioequivalent generic drug becomes available, but in a different color, there is considerable distrust with respect to the generic alternative. This distrust may lead to a lack of patient compliance in a state such as New York, which has adopted a mandatory generic drug substitution statute. When faced with patient resistance to drugs packaged in an unfamiliar color, physicians will prescribe the brand-name drug to insure that reluctant patients will take it. Indeed, problems with patient compliance may convince some physicians to insist as a matter of policy that pharmacists fill prescriptions with brand-name

1. See Appendix C to the Petition, p. 63a.

drugs, thereby denying all their patients access to lower-priced generics.

Second, even if patients eventually accept variations in color, they do so only after considerable anxiety and confusion. This can often result in the patient being deprived of the so-called "placebo effect" experienced by many patients, *i.e.* the psychological healing power caused by the confidence and assurance of a patient taking medication that he has been advised would help him.

Third, many elderly patients who take multiple medications identify each drug by its color. Color variations in the same medicine would upset the identification procedures employed by elderly patients, and create widespread confusion.

Fourth, the potential for confusion has led hospitals, pharmacies and wholesalers to refuse to purchase generic drugs colored differently than the brand-name drugs.

Fifth, uniform drug coloring can save lives, as it can serve to identify drug overdoses for physicians and emergency personnel acting in life-threatening situations.

This tendency of drug color to identify the medicine is heightened with respect to a drug such as cyclandelate. Cyclandelate is prescribed for long-term use, and usually to elderly patients. The long-term use enables the drug to become identified by its color, and color identification is more necessary for elderly patients who frequently take several drugs on a daily basis.

In light of the functionality of drug color, the District Court found, as a matter of fact, that "to insist that defendants use a different color would unjustifiably put them at a competitive disadvantage."[2] The District Court further found that "color is an important ingredient in the commercial success of the product."[3]

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2. *Id.* at 63a.

3. *Id.*

Labeling these functionality aspects to the issue, "unconvincing,"[4] the Second Circuit held that the generic manufacturers' imitation of the color in which respondent packaged its Cyclospasmol constituted "contributory trademark infringement" violative of Section 32 of the Lanham Act, 15 U.S.C. § 1114.

The Court of Appeals reasoned that the generic manufacturers should have reasonably anticipated that some druggists might intentionally or accidentally apply respondent's trademark to cyclandelate.[5] Because this possibility will always exist, the Court of Appeals has effectively granted a monopoly over color to brand-name drug manufacturers, and given them an unfair advantage over generic competitors who must sell the generic drug in a far less marketable color.[6] Consequently, the Second Circuit, in a radical departure from settled law,[7] has granted proprietary rights in color in the absence of "secondary meaning" and despite evidence of functionality, and has sharply contradicted the federal policy, as enunciated by this Court, favoring the exact copying of unpatented merchandise.[8] In so doing, it seems to have forsaken the interest of the public in general, and that of the elderly in particular, in favor of the profit interest of the drug manufacturers.

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4. *See* Appendix D to the Petition, p. 85a. As specifically noted by Judge Mulligan in his dissenting opinion (*Id.* at 91a) the majority did not characterize Judge Nickerson's findings with respect to the functionality of drug color as "clearly erroneous."

5. See *Id.* at 82a-83a.

6. The Second Circuit majority was particularly impressed by the results of test shoppings at 83 pharmacists located in the New York metropolitan area. Yet only one of these pharmacists dispensed cyclandelate while labelling it Cyclospasmol, without indicating to the patient in some fashion that he was being given a generic drug. It seems that the Majority has held that whenever palming-off occurs, a manufacturer should have reasonably anticipated it, thus removing any element of scienter from contributory trademark infringement.

7. *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924); *Upjohn Co. v. Schwartz*, 246 F.2d 254 (2d Cir. 1967).

8. *See Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964); *Compro Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238 (1964).

To the extent that generic manufacturers cannot compete with the brand-name producers in light of the color monopoly granted by the Court of Appeals in this case, and thus are forced out of the market, the brand-name manufacturers will then enjoy restoration of their product monopoly which had expired along with their patent. This would remove any hope for cost containment in the pharmaceutical industry.

To the extent that generic manufacturers manage to remain in the market, drug identification by color will no longer be possible, because of the inevitable claim of trademark infringement. Furthermore, patients or physicians whose confidence depends upon the functionality of drug color must suffer the higher price commanded by the brand-name companies. These functional aspects principally affect the elderly, and thus will be mainly paid for by a group of Americans least able to afford it.

CONCLUSION

Amici have a special interest and concern in expanding the competitive forces at work in the pharmaceutical market. Granting brand-name producers a monopoly over product color, in light of its functional nature, will seriously limit or eliminate these competitive forces, will preclude drug identification through uniform coloring, and will reserve the functional benefits of drug color to those willing and able to pay higher prices for it.

WHEREFORE, the decision of the United States Court of Appeals for the Second Circuit should be reversed.

Respectfully submitted,

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Of Counsel

Dated: November 23, 1981
New York, New York

EXHIBIT "A"

[Letterhead of
Miller, Singer, Michaelson & Raives, P.C.]

November 11, 1981

BY HAND

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Re: *Inwood Laboratories v. Ives Laboratories*

Gentlemen:

In conformity with Rule 36(2) of the United States Supreme Court Rules of Practice, we request your written consent to our filing of a brief *amici curiae* in the captioned matter on behalf of the American Association of Retired Persons and the National Retired Teachers Association. Please acknowledge your consent by signing the attached copy of this letter at the

space indicated and returning the same via the messenger who will be standing by.

We appreciate your cooperation.

Yours very truly,

RICHARD C. EBELING

/s/ MILTON A. BASS

/s/ PETER T. COBRIN

/s/ ROBERT V. MARROW

EXHIBIT "B"

[Letterhead of
Miller, Singer, Michaelson & Raives, P.C.]

November 11, 1981

BY HAND

Marie V. Driscoll, Esq.
Cooper, Dunham, Clark, Griffin
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30 Rockefeller Plaza
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Re: *Inwood Laboratories v. Ives Laboratories*

Dear Ms. Driscoll:

This will confirm our telephone conversation of yesterday, November 10, during which you gave consent, on behalf of Ives Laboratories, to our filing of a brief *amici curiae* on behalf of the American Association of Retired Persons ("AARP") and the National Retired Teachers Association ("NRTA"). I represented to you that the brief would be served by hand, instead of by mail.

Since our conversation, I have re-reviewed the Rules of Practice of the United States Supreme Court, and in particular Rule 36(2) thereof, and have discovered that Respondent's consent must be expressed in writing. Therefore, please acknowledge your consent to our filing of an *amici* brief by

signing the attached copy at the indicated place and returning the same to us via the messenger who will be standing by.

We deeply appreciate your cooperation and courtesy.

Yours very truly,

RCE/ct

RICHARD C. EBELING

Respondent consents to the filing of a brief *amici curiae* by AARP and NRTA in the captioned matter:

/s/ MARIE V. DRISCOLL

Marie V. Driscoll
Attorney of Record
for Respondent
Ives Laboratories, Inc.